INFORMATION CONCERNING THE SIZE OF RR LOANS

From the inception of the Rural Rehabilitation Program in July, 1935 through June 30, 1942 there was no legislative limitation on the amount which could be loaned an individual in a fiscal year or in any number of years. During this period, and more specifically from 1936 through 1939, a limited number of borrowers, who constituted a very small percentage of the total caseload, received original and supplemental loans which ranged from a total of $10,000 to $16,000 per borrower. These are the so-called large rehabilitation loans, an analysis of which discloses the following:

1. The total amount loaned was generally advanced over a period of from two to five years and consisted of an original and several supplemental loans.

2. The total amount loaned was not outstanding as an obligation at any one time and the average outstanding balance on such loans was usually less than 50 per cent of the total loans received by the respective borrower.

3. Such loans constituted a very small percentage of the national caseload.

4. The repayment records on these so-called large rehabilitation loans have been good.

The Annual Appropriation Act for the fiscal year 1943 limited the maximum which could be loaned to an individual in that fiscal year to $2500 regardless of whether the amount loaned was advanced in one loan, or two or more loans, during the fiscal year. A similar limitation has been included in each subsequent Appropriation Act. This limitation has been complied with by the Farm Security Administration without deviation since its initial inclusion in the Annual Appropriation Act of 1943. In those exceptional cases where a farmer has received an initial and supplemental, or two supplemental loans, in the same fiscal year, the total of all loans received by the individual has not exceeded $2500.

The Farm Security Administration's field of service is clearly restricted to that group of farmers whose credit needs cannot be met satisfactorily from other sources. In order to exclude from our field of operation those farmers whose credit needs can be met satisfactorily from other sources, and to make FSA assistance available only to that group of worthy and deserving farmers whose needs we are authorized to serve, the eligibility of applicants for FSA assistance is determined by our County FSA Committees. Each County FSA Committee consists of three practical farmers who know the conditions and the people in their county, and whose judgment and advice has proven sound and constructive.

The Farm Security Administration is conscious of the hazards inherent in permitting borrowers to incur indebtedness which their resources and abilities will not permit them to retire in an orderly manner within a reasonable period. In addition to full compliance with the legislative limitation included in each Annual Appropriation Act beginning with the fiscal year 1943, the Farm Security Administration has established, and placed in operation throughout the country, since December 22, 1943, these additional safeguards against the possible dangers of over-lending.

1. No loan for any amount shall be made which provides for a repayment schedule extending beyond the useful life of the collateral or five years, whichever is the lesser. Each loan is limited to an amount determined by a sound farm and home plan. Unless the farm and home plan shows the money to be borrowed can be repaid, no loan is made. Wherever consistent with the family's ability to repay, the repayment schedule is shortened beyond the five-year maximum or the useful life of the collateral.

2. No loans shall be made in excess of $1500 unless the County Committee for the County in which the applicant will operate shall certify that a larger loan is necessary to enable a family to establish or maintain adequate family-type farm operations in that County.

3. No supplemental loan shall be approved for any borrower whose debt to the Farm Security Administration for rural rehabilitation operating loan(s) was contracted five years or more prior to the date of applying for such additional assistance unless the borrower has repaid at least 50 per cent of his total RR indebtedness prior to applying for additional financial assistance. In the application of this limitation, it became apparent that needed financial assistance was being denied a few worthy borrowers for whom there was a reasonable probability of success. On December 18, 1944, exceptions were granted to permit additional financial assistance to such borrowers on an individual case basis provided, (a) a sound farm and home plan was developed, and (b) the County FSA Committee certified that additional financial assistance was needed and that there was a reasonable probability of success. The exceptions applied only to those borrowers whose failure to repay fifty per cent of their indebtedness was caused by catastrophe, deficiencies in resources, military service, or other circumstances beyond their control.

4. No supplemental loan shall be approved for any borrower if such approval will result in an outstanding indebtedness for RR loans of more than $5000. This policy has been adhered to without deviation except for a waiver granted for a total of 650 borrowers in the States of Colorado, Montana, and Wyoming. In order that these 650 families who had an outstanding indebtedness for rehabilitation loans in excess of $5000 might

not be deprived of reasonable assistance which might enable them to achieve rehabilitation, the Regional Director was delegated authority to approve personally, without any re-delegation of this authority, additional financial assistance to these borrowers provided the total indebtedness, including additional advances, would not exceed $7000 for rural rehabilitation loans. In the Spring of 1945 the number of these cases had been reduced to 370 and only 140 of these borrowers received any additional financial assistance during the fiscal year 1945. These cases are being reduced as rapidly as possible. Some of the borrowers involved have repaid their loans in full from farm income, while others have repaid their loans by obtaining financing from other sources since the FSA assistance which they have received had enabled them to acquire a credit status which permitted them to obtain satisfactory financial assistance from other sources. No other exception to this $5000 debt limit has been granted, and no other exception is to be granted.

5. Those families who have developed sufficient managerial ability to conduct satisfactorily their own farm and home business without further supervisory assistance and who have acquired a credit status which will permit them to obtain satisfactory financial assistance from other sources (local banks, PCA, etc.) are encouraged to do so even though they may have received FSA assistance less than three full crop years. Where such borrowers can obtain satisfactory credit for their future needs from other sources, it is not mandatory that existing debts to FSA be refinanced, provided:

   a. the family's opportunities for successful rehabilitation are not impaired by the arrangements made with the new source of credit;

   b. FSA's opportunities for ultimate collection will suffer no detriment by reason of such action; and

   c. FSA's present security interests are not waived. (This does not prevent the borrower giving the new creditor a first lien on <u>future</u> production financed by such new creditor.)

6. A County FSA Committee for each county reviews annually the progress of the families who have been borrowers for three full crop years, and those who have been considered problem cases to determine which families have progressed sufficiently to require no further FSA assistance, which families are no longer entitled to FSA assistance because rehabilitation is considered improbable, and which families need and deserve further FSA assistance. These reviews have been very effective in removing from FSA rolls those borrowers for whom rehabilitation was considered improbable, and in graduating to

other credit sources those borrowers who had made sufficient progress to enable them to make satisfactory credit arrangements from sources of private credit or other governmental agencies.

The policies outlined above have proven effective in limiting the amounts loaned to the minimum required for effective rehabilitation assistance. An analysis of the loan accounts of active standard borrowers, as of December 31, 1944 showed that of the total 244,021 such borrowers only 35,718 or 14.6 per cent, had received total rehabilitation loans of more than $2500. Of this national active standard caseload of 244,021 only 10,092 such borrowers, or 4.1 per cent, owed outstanding loan balances of more than $2500 as of December 31, 1944. Detailed information, by States, may be found in the attached Exhibits A and B.

The amount and kind of credit required to start family-size farm operations on a sound basis varies with the type of farming carried on in the area in which the credit is used. Modern farming requires a more extensive use of credit and more kinds of credit than any previous period in our history. The trend toward greater efficiency in agriculture through mechanization, increased production resulting from scientific discoveries in plant and animal breeding and increased use of fertilizers, and more business-like production and marketing will accentuate this need.

Many of the adjustments family-size farm operators will have to make in the years immediately ahead will require a type of credit suited to the conversion job. For example, the installation of some needed long-range conservation practices or the mechanization of some present manual farming operations may require a considerably larger capital investment than many small farmers can finance successfully through regularly established credit sources. Farmers can expect good returns from such investments, but they must be able to obtain a type of credit which will enable them to bridge successfully the change-over period. The rehabilitation program offers such credit to those worthy farmers who cannot obtain it elsewhere - a type of credit adapted to a complete adjustment job on the farm.

The size of rehabilitation loans varies directly with the type of farming carried on in the area in which the loans are made. During the first six months of this fiscal year the average size of original rehabilitation loans varied from $1,915 in Colorado to $701 in North Carolina. The following tables which show the average size of original and supplemental rehabilitation loans for selected states further reflect this gearing of loans to needs in different agricultural areas of the country:

AVERAGE SIZE OF ORIGINAL RURAL REHABILITATION LOANS.

State	Fiscal Year 1938	Fiscal Year 1941	Fiscal Year 1943	Fiscal Year 1945	7/1/45 to 12/31/45
California	$ 990	$ 1378	$ 1110	$ 1496	$ 1755
Colorado	1334	1258	1029	1579	1915
Pennsylvania	737	1060	1108	1300	1494
Wisconsin	975	1233	1348	1621	1763
Minnesota	973	1213	1513	1841	1912
North Carolina	503	421	408	541	701
Georgia	362	445	618	605	826
Mississippi	400	511	467	681	891
U. S. Average	592	658	704	1085	1408

AVERAGE SIZE OF SUPPLEMENTAL RURAL REHABILITATION LOANS

State	Fiscal Year 1938	Fiscal Year 1941	Fiscal Year 1943	Fiscal Year 1945	7/1/45 to 12/31/45
California	$ 455	$ 504	$ 646	$ 933	$ 1189
Colorado	438	368	445	681	699
Pennsylvania	393	324	460	613	710
Wisconsin	340	354	492	616	676
Minnesota	330	400	499	583	803
North Carolina	195	255	291	372	464
Georgia	123	108	227	232	393
Mississippi	108	195	228	248	280
U. S. Average	216	194	285	384	553

The states constituting Group I of Exhibit A consist primarily of states in which capital investments in livestock and machinery are small and farm operating costs are relatively low. Generally, the farm units in these states are small, and livestock, other than hogs and poultry, are secondary to crop production. It is principally a cash crop area with cotton, tobacco, and peanuts constituting the major crops. Mechanization of farms has not been a predominant factor in the economy of this area with the exception of Indiana, Michigan and Ohio. Although the borrowers operating in this area constituted 47.75 per cent of the U. S. total active standard caseload as of December 31, 1944, only 4.15 per cent had received more than $2500 in rehabilitation loans from the Farm Security Administration. A comparable situation exists regarding outstanding indebtedness for the borrowers operating in this same group of states, for only 0.33 per cent of such borrowers had an outstanding indebtedness of more than $2500 for rehabilitation loans as of December 31, 1944.

The states constituting Group IV of Exhibit A consist primarily of states producing specialty crops involving high annual operating costs and a high degree of mechanization combined with ranching and dairying with their high capital investments. Generally, the farm units in these states are larger than those in Group I. Mechanization and high capital investment

requirements are predominant factors in the agricultural economy of this area. Although the borrowers operating in this area constituted only 7.08 per cent of the U. S. total active standard caseload as of December 31, 1944, 52.19 per cent had received more than $2500 in rehabilitation loans from the Farm Security Administration. A comparable situation exists regarding outstanding indebtedness for the borrowers operating in this same group of states, for 21.76 per cent of such borrowers had an outstanding indebtedness of more than $2500 for rehabilitation loans as of December 31, 1944.

Within the limits of available funds, we have been able to provide reasonably sound rehabilitation assistance under the $2500 legislative limitation in a large part of the Nation. Rehabilitation assistance has, however, been restricted materially in those areas of the West and East in which ranching, dairying, and specialty crops with their high annual operating costs and relatively large capital investments predominate. Further legislative restrictions however, would probably lessen materially the effectiveness of assistance available to borrowers and might actually result in virtual, if not absolute, withdrawal of the rehabilitation program from some areas of the country.

The following quotation from the North Central Regional Publication No. 5,* "Capital Needed to Farm In The Midwest", issued January, 1946 is indicative of present trends in agriculture and of the need for adequate capital for successful farming operations:

INCREASED CAPITAL NOW NEEDED

"The day is past when a man can start farming with a team of horses, a plow, and a wagon. Many factors now make large amounts of capital essential to success in farming. The price of land is high. Modern farming requires a high investment in machinery and mechanical power. To use this equipment effectively a larger farm unit is required than formerly. Livestock is of growing importance and requires large investments not only for the animals themselves, but also for feed, buildings, fences, and other equipment. Maintenance and improvement of the land has become increasingly necessary and involves considerable expenditure. Many new methods of production make for added capital outlay."

Even though this statement was prepared for the North Central States, it has general significance throughout the Nation.

*Agricultural Experiment Stations of Illinois, Indiana, Iowa, Kansas, Kentucky, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, Wisconsin, The Farm Foundation and Bureau of Agricultural Economics, U. S. Department of Agriculture, Cooperating.

Percentage of Active Standard RR Borrowers, by States,
Receiving More Than $2,500 in Loans from Farm Security Administration
From 1935 Through December 31, 1944

State	Active Standard RR Caseload as of December 31, 1944	Total No. Receiving over $2500	Percentage Receiving over $2500	State Active Standard RR Caseload as a Percent of U. S. Total
U. S. Total	244,021	35,718	14.6	100.0
		Group I: From 0% - 10%		
Alabama	10,460	262	2.5	4.3
Arkansas	11,129	445	4.0	4.6
Florida	3,563	200	5.6	1.5
Georgia	11,940	358	3.0	4.9
Indiana	4,496	405	9.0	1.8
Kentucky	10,069	0	0.0	4.1
Louisiana	9,046	651	7.2	3.7
Michigan	5,266	400	7.6	2.2
Mississippi	12,729	509	4.0	5.2
Missouri	10,569	486	4.6	4.3
Ohio	6,125	398	6.5	2.5
South Carolina	6,631	252	3.8	2.7
Tennessee	4,592	32	0.7	1.9
Virginia	5,944	339	5.7	2.4
West Virginia	3,971	95	2.4	1.6
	116,530	4,832	4.2	47.8
		Group II: From 10.1% - 20%		
Delaware	223	40	18.0	0.1
Illinois	5,361	702	13.1	2.2
Iowa	6,485	947	14.6	2.7
Kansas	6,480	1,244	19.2	2.7
Minnesota	7,365	1,282	17.4	3.0
Nebraska	6,147	934	15.2	2.5
North Carolina	10,997	1,155	10.5	4.5
North Dakota	3,762	564	15.0	1.5
Oklahoma	14,207	2,407	16.9	5.8
Pennsylvania	3,378	628	18.6	1.4
Rhode Island	107	21	19.2	0.0
	64,512	9,924	15.4	26.4

Percentage of Active Standard RR Borrowers, by States, Receiving More Than $2,500 in Loans from Farm Security Administration From 1935 Through December 31, 1944

State	Active Standard RR Caseload as of December 31, 1944	Total No. Receiving over $2500	Percentage Receiving over $2500	State Active Standard RR Caseload as a Percent of U. S. Total
	Group III: From 20.1% - 40%			
Connecticut	138	49	35.5	0.1
Idaho	3,082	1,066	34.6	1.3
Maryland	1,137	252	22.2	0.5
Massachusetts	357	100	28.1	0.1
New Mexico	2,583	540	20.9	1.1
Oregon	1,598	406	25.4	0.7
South Dakota	7,502	1,996	26.6	3.1
Texas	19,138	4,780	25.0	7.8
Utah	2,260	619	27.4	0.9
Vermont	616	233	37.8	0.3
Washington	2,281	821	36.0	0.9
Wisconsin	5,005	1,081	21.6	2.1
	45,697	11,943	26.1	18.8
	Group IV: From 40.1% - 70.6%			
Arizona	533	233	43.7	0.2
California	1,771	744	42.0	0.7
Colorado	3,703	1,892	51.1	1.5
Maine	1,788	894	50.0	0.7
Montana	2,372	1,478	62.3	1.0
Nevada	251	105	42.0	0.1
New Hampshire	494	213	43.2	0.2
New Jersey	696	281	40.4	0.3
New York	3,020	1,305	43.2	1.2
Wyoming	2,654	1,874	70.6	1.1
	17,282	9,019	52.2	7.0

Source: 1944 RR Family Status Report

Percentage of Active Standard RR Borrowers, by States,
Having More Than $2,500 Due as of December 31, 1944

State	Active Standard RR Caseload as of December 31, 1944	Total No. with Outstanding Balance over $2500	Percentage with Outstanding Balance over $2500	State Active Standard RR Caseload as a Percent of U. S. Total
U. S. Total	244,021	10,092	4.1	100.0
		Group I: From 0% - 5%		
Alabama	10,460	0	0.0	4.3
Arkansas	11,129	0	0.0	4.6
Delaware	223	6	2.7	0.1
Florida	3,563	68	1.9	1.5
Georgia	11,940	0	0.0	4.9
Illinois	5,361	198	3.7	2.2
Indiana	4,496	22	0.5	1.8
Iowa	6,485	117	1.8	2.7
Kansas	6,480	298	4.6	2.7
Kentucky	10,069	0	0.0	4.1
Louisiana	9,046	27	0.3	3.7
Maine	1,788	80	4.5	0.7
Michigan	5,266	90	1.7	2.2
Mississippi	12,729	0	0.0	5.2
Missouri	10,569	95	0.9	4.3
North Carolina	10,997	33	0.3	4.5
North Dakota	3,762	139	3.7	1.5
Ohio	6,125	49	0.8	2.5
Oklahoma	14,207	710	5.0	5.8
Rhode Island	107	4	3.8	0.0
South Carolina	6,631	13	0.2	2.7
Tennessee	4,592	0	0.0	1.9
Texas	19,138	746	3.9	7.8
Virginia	5,944	0	0.0	2.4
West Virginia	3,971	16	0.4	1.6
Wisconsin	5,005	155	3.1	2.1
	190,083	2,866	1.5	77.9

Percentage of Active Standard RR Borrowers, by States, Having More Than $2,500 Due as of December 31, 1944

State	Active Standard RR Caseload as of December 31, 1944	Total No. with Outstanding Balance over $2500	Percentage with Outstanding Balance over $2500	State Active Standard RR Caseload as a Percent of U. S. Total
Group II: From 5.1% - 10%				
Connecticut	138	9	6.2	0.1
Idaho	3,082	237	7.7	1.3
Maryland	1,137	64	5.6	0.5
Massachusetts	357	25	7.0	0.1
Minnesota	7,365	479	6.5	3.0
Nebraska	6,147	387	6.3	2.5
New Mexico	2,583	155	6.0	1.1
Oregon	1,598	120	7.5	0.7
Pennsylvania	3,378	209	6.2	1.4
Utah	2,260	158	7.0	0.9
	28,045	1,843	6.6	11.5
Group III: From 10.1% - 15%				
Arizona	533	74	13.8	0.2
California	1,771	221	12.5	0.7
Vermont	616	92	14.9	0.3
Washington	2,281	312	13.7	0.9
	5,201	699	13.4	2.1
Group IV: From 15.1% - 33%				
Colorado	3,703	1,011	27.3	1.5
Montana	2,372	783	33.0	1.0
Nevada	251	40	16.1	0.1
New Hampshire	494	77	15.5	0.2
New Jersey	696	121	17.4	0.3
New York	3,020	486	16.1	1.2
South Dakota	7,502	1,298	17.3	3.1
Wyoming	2,654	868	32.7	1.1
	20,692	4,684	22.6	8.5

Source: 1944 RR Family Status Report